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Baldrige Statement Opposes Auto Restraint Extension

Speaking to reporters on March 13, Commerce Secretary Malcolm Baldrige fired the opening salvo on the question of Japanese auto export restraints in 1985. A strong advocate of the restrictions since entering the administration, Secretary Baldrige surprised the press by saying that he believed restraints should be allowed to expire at the end of March 1985. While he was careful to note that he was expressing his own views and not the administration's, his comments are being widely reported and taken very seriously.

Austere Budget Passes Lower House as Private Sector Picks Up Steam

Overcoming a six day boycott of Diet business by opposition parties, the Liberal Democratic Party-New Liberal Club (LDP-NLC) coalition government pushed its FY 1984 budget proposal through the lower house on March 13. As a measure of the second Nakasone cabinet's strength, the effort was impressive. It took just 23 days to pass the approval process in comparison to the average 30 days, even including the six day impasse. Highlights of the adopted budget include:

- An overall general budget increase of just 0.5 percent over FY 1983 to Y50.6 trillion ($225 billion at current exchange rates). This will still leave a Y12.7 trillion ($56 billion) deficit.

- A 7 percent increase in tax receipts, in part from increased or new indirect levies including liquor taxes, sporting/luxury goods taxes and automobile taxes. A 1.3 percent hike in the national corporate tax and a 2.5-fold jump in the local corporate tax are also major revenue generators.

- A 5 percent reduction in the budget deficit will cut government bond issues by the same amount, but the cost of servicing the outstanding debt issues will rise 12 percent to Y9 trillion ($40 billion).

- Cuts in spending for all discretionary line items, including public works and agricultural price supports, except for defense, overseas economic aid, education and science.

- A 6.5 percent rise in outlays for national defense to a Y2.9 trillion ($13 billion) level, coming within a hair's breadth of the Nakasone-supported cap of 1 percent of gross national product.

(For details see JEI Reports 5B, February 3, and 7A, February 17, 1984.)

The six day opposition boycott was precipitated by a debate over the LDP-NLC defense spending proposal. The walkout was called when the ruling coalition refused to compromise on a cut. Faced with an absence of public support for the boycott, a lack of alternative policies, and inadequate voting strength, however, the protest action quickly collapsed. While the Nakasone cabinet faced hard-nosed questioning by opponents, it handled the deliberations competently -- pushing the proposal through without reference to the Tanaka scandal.

While politicians battled things out, the Japanese economy continued to perk along quite nicely. Preliminary figures for the fourth quarter of 1983 show gross national product rising 0.8 percent in real terms over the previous quarter or 3.2 percent in annual terms, meaning that the government's 3.4 percent growth goal for the fiscal year ending March 31 will be easily reached. Fourth-quarter growth was down from the previous quarter (6.2 percent annually), reflecting a drop in public-sector investment (off 2.9 percent) and slowed growth in personal consumption (2.0 percent compared with the third quarter's 3.7 percent figure). Private housing investment jumped 24.8 percent on an annual basis from the third quarter and corporate investment grew at an annualized rate of 7.8 percent, contributing to the solid performance.

Major economic indicators for January reveal weaknesses in the Japanese economy, but paint a generally positive picture.

Japanese Economic Indicators, January 1984

(Seasonally adjusted)

Indicator	Percentage change from: Previous Month	Previous Year
Production	0.8%	10.1%
Shipments	2.2	8.6
Producer's Inventories	-15.1	-5.4
Housing Starts	-4.6	-11.7
Bankruptcies	-17.8	19.3
Exports, (February, f.o.b., yen basis)	3.0	18.3
Imports, (February, c.i.f., yen basis)	4.4	13.3
Current-Account Balance (February)	-3.4	53.0
(in millions of dollars) 2/84 = $2,467	1/84 = $2,554	2/83 = $1,308
Money Supply (M2 plus CDs)	1.2	7.6
Unemployment Rate (in percent) 1/84 = 2.73	12/83 = 2.63	1/83 = 2.68

Given the marginal growth of the FY 1984 budget and the cuts in public works expenditures, fiscal policy remains non-stimulative, if not deflationary. In order to relieve specific areas of the economy, including housing construction and unemployment, monetary policies such as a cut in the discount rate may be necessary. While Bank of Japan officials have resisted such a move to date, the economic weak spots plus a stronger yen may pursuade them otherwise.

The budget moved to the upper house for consideration almost immediately in light of the prime minister's March 23 departure for China. The prime minister faced pointed questions about his commitment to military spending, education and administrative reform from concerned councilors. Stressing the Soviet threat in Northeast Asia and Japan's growing responsibilities, Mr. Nakasone reiterated his support for defense spending increases, but backed away from his constitutional reform drive. In the lower house, meanwhile, tax policy and administrative reform are the foci of new clashes as opposition parties seek new personal income-tax cuts and bars against indirect tax increases. Given its strong showing in the budget process, the ruling coalition will likely win its way on all important issues.

Jon Choy

Telecommunications Reform and Software Rights: One Down, One to Go

The drama surrounding Japan's efforts to reform its domestic telecommunications market and to create legal protections for computer programs

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THE SECOND NAKASONE CABINET

Summary

With relative ease, the newly appointed Nakasone cabinet is clearing its first political hurdle--the 1984 budget--since December's general election. The Liberal Democratic Party's lack of a clear majority in the Diet has complicated the task of this administration, which for the moment is moderating its style to avoid serious parliamentary problems.

This report will examine key members of the current administration, including leaders of the LDP and non-governmental advisers. Specific attention will be directed to the coalition government's approach to current political problems vis-a-vis the issues pending between Japan and the United States. And finally, Prime Minister Nakasone's political character will be discussed in terms of the November internal party election and the new prominence given to the issue of educational reform.

Cabinet Members

The second cabinet (see Table 1) retains three ministers from the first: Minister of Foreign Affairs Shintaro Abe, Finance Minister Noboru Takeshita, and Masaharu Gotoda, Director-General of the Administrative Management Agency -- formerly Chief Cabinet Secretary. These appointees were considered essential to achieve progress on major pending issues, i.e. foreign policy and the budget. The appointments were also related to the balance of power between LDP factions. Takeshita and Gotoda belong to the powerful Tanaka faction; Abe to the Fukuda, the largest of the non-mainstream factions.

Abe is in a delicate position, one for which he is well-suited. A journalist for Mainichi Shimbun during his early career, he is very effective in dealing with the bureaucracy. At the same time, as a potential successor to Prime Minister Nakasone, he is caught in a political dilemma. Duty-bound to support the Nakasone administration as a loyal cabinet member, he is unable to pursue an active campaign for the leadership post. Despite this constraint, he is thoroughly appreciated as foreign minister and is said to work well with Secretary of State George Shultz.

The second appointee, Finance Minister Takeshita, known for his skilled maneuvering in intra- and inter-party politics, seems to be emerging as a policy specialist. After supervising the preparation of three budget drafts, he has turned his attention to the legislation to liberalize Japan's capital markets. As one of the senior LDP members -- a self-styled "new leader" and a potential party president, he is probably anxious about his position in the Tanaka faction. However, he seems determined to take a "wait-and-see" stance, content to remain under Kakuei Tanaka's factional leadership.

Masaharu Gotoda, the third Nakasone veteran, is expected to be appointed to head the new General Administrative Agency which will be inaugurated in July on the recommendation of the Ad Hoc Council on Administrative Reform. The new agency is charged with streamlining the bureaucracy and coordinating effective government administrative efforts. In the first cabinet, Mr. Gotoda displayed special talents for the delicate post of chief cabinet secretary, and in fact, continues to have a hand in organizing the cabinet. He will assume responsibility for the most important issue facing government officials, a carry-over from the first cabinet -- administrative reform.

Among the new faces, Home Affairs Minister Seiichi Tagawa, the New Liberal Club (NLC) leader, is the most noteworthy, since his nomination was a necessity born of the coalition that enabled the LDP to retain power in the Diet. During the recent budget deliberations, he was attacked by the opposition parties for his shift in position. However, Mr. Tagawa, a former writer for Asahi Shimbun, is surviving and gaining respect. Recently, he shocked the journalistic community by advocating a new tax on advertisements which would substantially discourage corporate advertising -- the most important source of revenue for newspapers and television stations.

The Director-General of the Economic Planning Agency (EPA), Toshio Komoto, founder of a shipping company, has been critical of Nakasone and even publicly suggested that the prime minister resign just after the December election. However, his presence in the administration was necessitated by the need for LDP factional balance to ensure the survival of the cabinet. Even though his position and that of his faction are poles apart from Nakasone, he can still be considered closer to the prime minister than the NLC. In this sense, his seemingly discordant position is overshadowed by Mr. Tagawa. As an advocate for an expansive economic policy, Mr. Komoto was expected to challenge the administration's rather conservative economic position. However, since early this year, Japan's economic recovery has appeared more and more pronounced. Ironically, this improvement has worked against the EPA director's chances of politicizing the issue.

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The four ministers assigned to agencies with international responsibility -- Yuko Kurihara (Defense), Hikosaburo Okonogi (MITI), Shinjiro Yamamura (Agriculture), and Keiwa Okuda (Post and Telecommunications) -- are all rather new. Only Mr. Kurihara has previous experience in the cabinet (Minister of Labor). Both Messrs. Okonogi and Yamamura are old hands at Diet politics and were appointed for their adroitness in dealing with the opposition parties. The appointments of Ministers Kurihara and Okuda were dictated by factional balancing arrangements. Even though the Nakasone faction wanted the Post and Telecommunications seat, which administers the fast-growing new industries like value-added networks (VAN) and cable TV, the Tanaka faction (Okuda) successfully landed the office.

Yuko Kurihara, head of the Defense Agency and administration spokesman for the defense spending increase proposal, seemed rather cautious about the military buildup, specifically the 1000-mile sealane defense. He is a member of the Suzuki faction and up to now -- only a few months into his first term -- has fundamentally followed the policies laid down by the prime minister.

LDP Relationships

Day-to-day rearrangement of the Liberal Democratic Party is in the hands of the senior politicians appointed to the party's four major administrative posts. These positions control the party's finances, policy formulation and electoral strategy. Because it is composed of semi-independent competing factions, the LDP must manage the factional balance carefully when appointments are made. Within the party, it is essential that members are willing to work together, and above all, that the party president/prime minister provides a high level of political skill to avoid a breakdown in the decision-making process.

Of the four key party administration figures, Secretary General Rokusuke Tanaka is the prime minister's closest confidante. He was given the number-two position in the party as a reward for his post-election role in dealing with the depleted power of the Nakasone regime and in organizing the coalition with the NLC. As a senior member of the Suzuki faction, he formally supports Kiichi Miyazawa, Suzuki's acting successor. However, few political observers believe that he would be disappointed by Nakasone's reelection this fall. Although he has serious health problems, he is closely watched by other LDP members since his prodigious influence could affect the party election.

The Executive Council chairman, Shin Kanemaru, is one of the most powerful members of the Tanaka faction. While he supports Takeshita for LDP president, his reputation for independence gives him additional leverage in internal LDP politics.

The chairman of the Policy Affairs Research Council, Masayuki Fujio, serves as a strong representative for the Fukuda faction, which stands somewhere outside of, if not against, the LDP mainstream factions (Nakasone, Tanaka and Suzuki). Mr. Fujio, another former journalist (Yomiuri Shimbun), has been reported in the press to be critical of Mr. Nakasone's educational reform initiative.

Deputy Secretary General Michio Watanabe is also said to be close to Mr. Nakasone. He is the "prodigal son" of the prime minister's faction and is most likely to be chosen as head of the Nakasone faction. As a former Minister of Finance, he is campaigning for a major tax increase to balance the budget, thus saving the prime minister the personal political inconvenience of having to publicly support an unpopular position.

Advisers

Four government agencies -- the Ministries of Finance, Foreign Affairs, International Trade and Industry (MITI) and the National Police Agency -- appoint one mid-ranking bureaucrat to serve as official secretary to the prime minister. These officials, who are assigned to the Secretariat, work closely with the prime minister and serve an important liaison function with the ministry from which they came. They are chosen on the basis of their administrative and political skills, and sometimes for prior personal connections with the incumbent prime minister. Yatsuo Iwasaki, from MITI, for example, worked for Mr. Nakasone when the prime minister was chief of MITI. Even though this group's official titles are not as senior or as conspicuous as the cabinet-level advisers in the White House, its actual behind-the-scenes functions are quite important, particularly in moderating the friction between various government departments.

From outside the government, leaders of the business and academic communities and former government officials also contribute to policy formulation. Since Mr. Nakasone came to power, several groups have been established that hold monthly luncheon or dinner meetings with the premier. Two or three of these are often described as a "brain trust" for the chief executive. The most important is called the "Advisory Friends," and is attended by seven people: Ryuzo Sejima (counselor for C. Itoh & Co.); Goro Koyama (counselor for Mitsui Bank); Nobuhiko Ushiba (chairman, Japan-U.S. Advisory Commission); Takashi Hosomi (president, Overseas Economic Cooperation Fund); Yutaka Takeda (president, Nippon Steel Co.); Yoshihiro Nakayama (president, Mideast Research Institute); and Hiromori Kawashima (former deputy cabinet secretariat). Mr. Nakasone meets with this group as often as twice a month. They represent diverse sectors of society, but most of them have certain personal or school ties with the prime minister.

The 11-member "Study Group for Peace," chaired by Kyoto University professor Masataka Kosaka, is another active advisory organization. Established in August 1983, this group meets once a month to review Japan's national security policy. Besides Kosaka and two Advisory Friends members, Sejima and Nakayama, it includes: Yoshihisa Ohjimi (counselor for Arabian Oil Company); Yoshiko Sato (lawyer): Tatsuo Sato (counselor for Jiji Press); Michio Takeuchi (chairman, Board of Tokyo Stock Exchange); Sohei Nakayama (chairman of the board, International University); Shokichi Namiki (director, Food and Agricultural Policy Institute); Yoshiji Miyata (president, Federation of Steel Worker's Labor Unions); and Takashi Mukaibo (acting chairman of the Nuclear Committee).

In addition, Nakasone meets with people from the business communities (Zaikai) in Tokyo, Osaka and Nagoya periodically. All prime ministers have had similar contacts. One unique association, the Sanno Economic Study Group,

includes heads of small and mid-sized companies. It is chaired by Noburo Mochida (president of Mochida Pharmaceutical Co.). Nakasone's rather close relationship with this sector of the business community reflects past patterns of financial support for his faction. Because the Nakasone faction in the past has not been considered part of the LDP mainstream, he has had difficulty establishing effective personal ties with the larger companies in the business community. Instead he has had to rely on smaller firms for financial donations. Members of the Sanno Economic Study Group are essential to Mr. Nakasone's fund-raising activities.

Among those advisers, Sejima, who was an officer of the joint chiefs of staff during World War II, is said to be Nakasone's closest friend and most influential contact. Immediately after Nakasone was elected, Sejima personally helped to arrange his visit to South Korea. He was also a key participant in the effort to coordinate conflicting views on government reform and has advised Nakasone on many other matters, particularly international relations and military affairs.

Issues in Bilateral Relations

The improvement in the economy both in Japan and the United States offers this cabinet much more leeway in handling bilateral issues than was available to the first cabinet. The most urgent of these is the question of agricultural imports, especially beef and citrus. The Agriculture Minister's unfamiliarity with this issue will not affect the deliberations because the negotiations are so sensitive that they are being supervised by the prime minister himself and by key agricultural representatives in the LDP. Prime Minister Nakasone is apparently determined to resolve this problem personally, which is as useful to the Reagan administration as it is for Mr. Nakasone.

The final proposal to increase the quota for beef and citrus imports is now under consideration. Agreement is expected to be reached by the end of March when the existing arrangement on beef and citrus trade ends. There is support in Japan for a three-year agreement -- a departure from the current four-year accord. Japan would prefer that the subject not come up again in a U.S. presidential election year.

The focus of attention on trade issues is now shifting from merchandise to services and software. Capital market and banking deregulation measures have been passed by the cabinet and the Ministry of Finance has already drafted a financial liberalization program. Even so, the real trouble spots, like the strict division of banking functions, will continue to cause some friction between Japan and the United States.

Issues like legislation for computer software copyrights and liberalization of telecommunications services are burning controversies in the Japanese government (see JEI Report No. 12B, March 16, 1984). They present new problems for Japan, raising jurisdictional conflicts. Unless they are resolved in a satisfactory manner, they will continue to be hot issues even beyond the second cabinet's tenure.

On defense, the revision of the Mid-Term Defense Program (FY 1983-87), especially the sea-lane buildup, is the cabinet's biggest responsibility, with

serious implications for Japan's defense policy and the bilateral relationship. Military specialists in both Japan and the United States consider the existing program too conservative, especially for the sea-lane buildup. Prime Minister Nakasone expects the non-governmental "Study Group for Peace" to present him with a proposal on this by the end of July. The proposal will address fundamental defense policy, including the deliberation of the "National Defense Program Outline" (approved by the cabinet on October 29, 1976) which authorizes Japan's existing defense policy.

Political Dynamics

Earlier, it was thought likely that there would be another general election before the LDP general meeting and party presidential election in November. Prime Minister Nakasone was expected to risk his tenure in a bid to regain LDP Diet seats. But this option seems to have been abandoned. His strategy to divide the power of rival candidates has worked quite effectively so far. Even though two of the "new leaders," Shintaro Abe and Noboru Takeshita, are in the cabinet, a third, Kiichi Miyazawa, is not. And the last candidate, Toshio Komoto, also seems rather isolated.

The current configuration of this cabinet, however, will be rather short. In July, when the new General Administrative Agency is established, it is expected that there will be a reshuffling. Mr. Nakasone is expected to make at least two changes: the appointment of a director of the new agency, and a special minister for external affairs. Those two nominations, however, may trigger others. As mentioned earlier, Masaharu Gotoda is widely expected to be nominated to head the new agency. The external affairs post is expected to go to Masumi Ezaki, chairman of the LDP special study group for international economic issues. Both belong to the Tanaka faction, however, and to ease the repercussions of this imbalance, Nakasone will have to adjust his other appointees -- even if only cosmetically.

Past incumbent prime ministers have used cabinet reorganization to strengthen their hold on the premiership. But, given the complexity of inter-party alliances, a cabinet reshuffle is a delicate business which, if improperly handled, can backfire, and force the incumbent to resign. The LDP's loss of seats in the December 1983 election and the resulting coalition with the New Liberal Club further complicates the process for Mr. Nakasone this time around. But political observers in Japan are becoming more and more confident that the prime minister will be reelected in the fall.

The current political dynamics of the LDP can be analyzed on two levels. One is the struggle between the largest faction (Tanaka) and all of the other factional groups; the second is the struggle between the older and the younger generation. The "new leaders" -- Miyazawa (64), Abe (59) and Takeshita (59) want to take over. These men, who are actually not all that young, are trying to make this the last regime of the party's elder statesmen, not only in terms of official capacity but also in terms of actual intra-party power.

After Eisaku Sato, the longest-ruling prime minister in Japan (1964-1972) stepped down, Tanaka (67), Fukuda (79), Miki (77), Ohira and Nakasone (65) emerged as candidates for the LDP leadership. All of them have

realized their ambitions. All of Nakasone's predecessors were forced out of office by unexpected events, and all of them, except Ohira, are still alive and quite powerful -- particularly Tanaka and Fukuda, both faction leaders.

It is quite interesting to note that Abe and Takeshita, who belong to "enemy" factions, are reported to dine tete-a-tete very often. They appear to agree that the LDP should promote the younger generation, rather than older candidates such as Komoto (72, seven years older than Nakasone), and Miyazawa, the oldest "new leader." Nakasone's reelection would effectively eliminate Miyazawa from future consideration. So at least on this matter, Abe and Takeshita seem to be in agreement with Nakasone, who considers Miyazawa, successor to the established Suzuki faction, his most powerful rival. The feasibility of Nakasone's reelection is thus supported by the fact that he is in an excellent position to manipulate the factional balance.

What Are Nakasone's Politics?

This year, the issue given the most prominence by Mr. Nakasone is educational reform. In spite of some opposition -- even from within the LDP -- he has been quite active in establishing a special advisory council which is to be given official standing through legislation. The reform strategy is similar to the administrative reform plan which launched Nakasone onto the LDP leadership track and into the premiership.

The education issue was first raised during the December election campaign. The setback dealt the LDP at that time, however, prevented him from pursuing the subject aggressively. A meeting early this year with the leader of the Democratic Socialist Party (DSP), Ryosaku Sasaki, renewed discussions on the subject. The New Liberal Club (NLC), active on education policy since its formation in 1976, also encouraged this move.

The choice is quite timely and shrewd, coming at a point when many social problems connected with the schools have emerged. Violence in Japan's junior high schools is on the rise. Attacks in the the classroom have been reported. In a widely publicized case, a disturbed student recently beat his parents to death, presumably a reaction to the pressure of college entrance exams. No Japanese would deny the necessity for educational reform, but many may resist treating it as a political issue. Mr. Nakasone has taken a risk in forcing the nation to confront the question. In a sense, it demonstrates strong leadership, like that seen during his discussions of military issues with President Reagan last year, although the traditional roots of the political strategy behind this choice should not be underestimated. To explain Nakasone's position, it is useful to analyze his style of operation in the broader context of Japan's postwar politics -- specifically the two streams of the ruling conservative party.

The mainstream LDP, led during the postwar period by former prime ministers Yoshida, Ikeda, Sato and Ohira, tended to emphasize economic issues; the anti-mainstream, initiated by then-Prime Minister Nobusuke Kishi, stressed political independence and defense issues. This group is thought of as more "nationalistic." Nakasone is considered the heir of the latter group, and the issues he has emphasized during his premiership are consistent with traditional anti-mainstream concerns.